

ARTICLE APPEARED
ON PAGE A1

THE WASHINGTON POST
14 July 1981

CIA Spymaster Is A Improper Stock F Hugel Denies Leaking Inside Bus

By Bob Woodward and Patrick E. Tyler
Washington Post Staff Writers

Max Hugel, who holds one of the most sensitive jobs in the Reagan administration as chief of the CIA's clandestine service, engaged in a pattern of improper or illegal stock market practices in the mid-1970s that was intended to boost the stock of the New York wholesale firm he headed, according to two former business associates who secretly tape-recorded Hugel's business conversations.

The allegations against Hugel, 56, are made by two former Wall Street brokers, Thomas R. McNell, 49, and his brother Samuel F. McNell, 47, who charge that they participated with Hugel in a series of prohibited practices which deceived other investors. Several securities experts, consulted about the case, agree that Hugel's participation in these activities, if true, would be at least improper and perhaps illegal.

The McNells' tapes and documents corroborate these accusations: Hugel provided them with "insider" information on the company he headed in advance of disclosure to other investors and the general public; Hugel improperly funneled funds to McNell Securities, the principal firm trading in his company's stock, Brother International Corp., through loans to Samuel McNell as a middleman.

The McNells, who admit their own culpability in these activities, further allege that Hugel, relying on a business associate, orchestrated the phased purchase of 15,000 shares of his company's stock to create the appearance of increased market interest in it.

As the Central Intelligence Agency's deputy director for operations, Hugel today has access to the U.S. government's most

important secrets and directs the agency's worldwide network of covert intelligence agents. He emphatically denies any wrongdoing in his business relationships with the McNells and accuses them of threatening him with "blackmail" when he tried belatedly to sever the business connections and collect several hundred thousand dollars in loans.

Hugel, however, did not report any blackmail threats to the CIA's Office of Security which reviewed his past for the necessary security clearances. Hugel describes the McNells as "vindictive" people who, among other things, tried to swindle him. He dismissed all of their accusations as resentments left over from their ill-fated business connections in 1974 that ended in bankruptcy for Thomas McNell.

Beyond the accusations of improper behavior, the McNell tapes portray Max

Hugel as a combative and volatile person, given to profanities and angry expressions. At one point, when the business relationship was souring, Hugel expressed his rage at the McNells' Wall Street lawyer. "I'll kill the bastard," he said. On another tape, Hugel suggests that Thomas McNell might be found "hanging by the balls" if the outstanding loans were not repaid.

These revelations of stock market irregularities confront the leadership at the CIA with special irony. Hugel was brought from the Reagan campaign organization into the sensitive job of spymaster by CIA Director William J. Casey over the objections of some senior officials to his lack of experience. Casey is himself a former chairman of the Securities and Exchange Commission which polices Wall Street and he chose as CIA general counsel Stanley Sporkin who for many years was the chief enforcement officer at SEC and well

his two lawyers, and Sporkin, representing the CIA, met with reporters and editors at The Washington Post to review the accusations and records. Hugel said he canceled a weekend trip on an important overseas "operation" in order to confront the charges.

"There isn't any question I won't answer," Hugel said. "This is a very serious matter, my friends. My personal reputation is at stake. I intend to see this thing through to its very end."

Hugel and his attorneys requested a second meeting with Post reporters yesterday at which they presented some documents and repeated Hugel's denials. Hugel said some of his emphatic denials of last Friday may have appeared misleading, particularly in light of the tape recordings, but he had no intention of deceiving. Again he said he is innocent of any intent to conspire with the McNells or anyone else.

"I never profited one penny from the purchase or sale of Brother stock," Hugel said. Of his 20 years with Brother International, he said, "I'm proud of what I did and I'm proud of it now."

In Friday's response to point-by-point questions, Hugel denied ever sharing any "insider" information with the McNell firm while it was making a market in his company's stock as well as the other allegations. When several of the tape recordings were played for him and his lawyers, Hugel said he recognized his own voice but he didn't know what to make of the conversations. His lawyers advised him not to answer further questions until they could be dealing with